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AUTOMOTIVE INDUSTRIES

THE PEOPLE – THE PRODUCT – THE PROCESS

Full-Size Pickups

HERE COMES JAPAN

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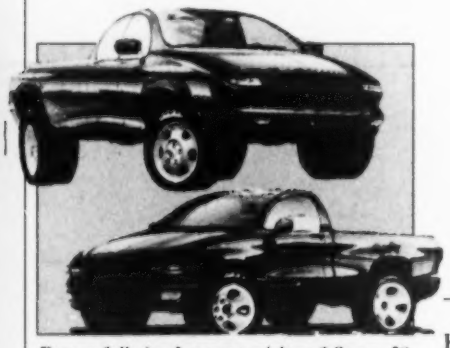

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FULL-SIZE PICKUPS

HERE COMES JAPAN!

by LINDSAY BROOKE

The Japanese are about to take on America's most popular vehicle. What will they think down in Texas?

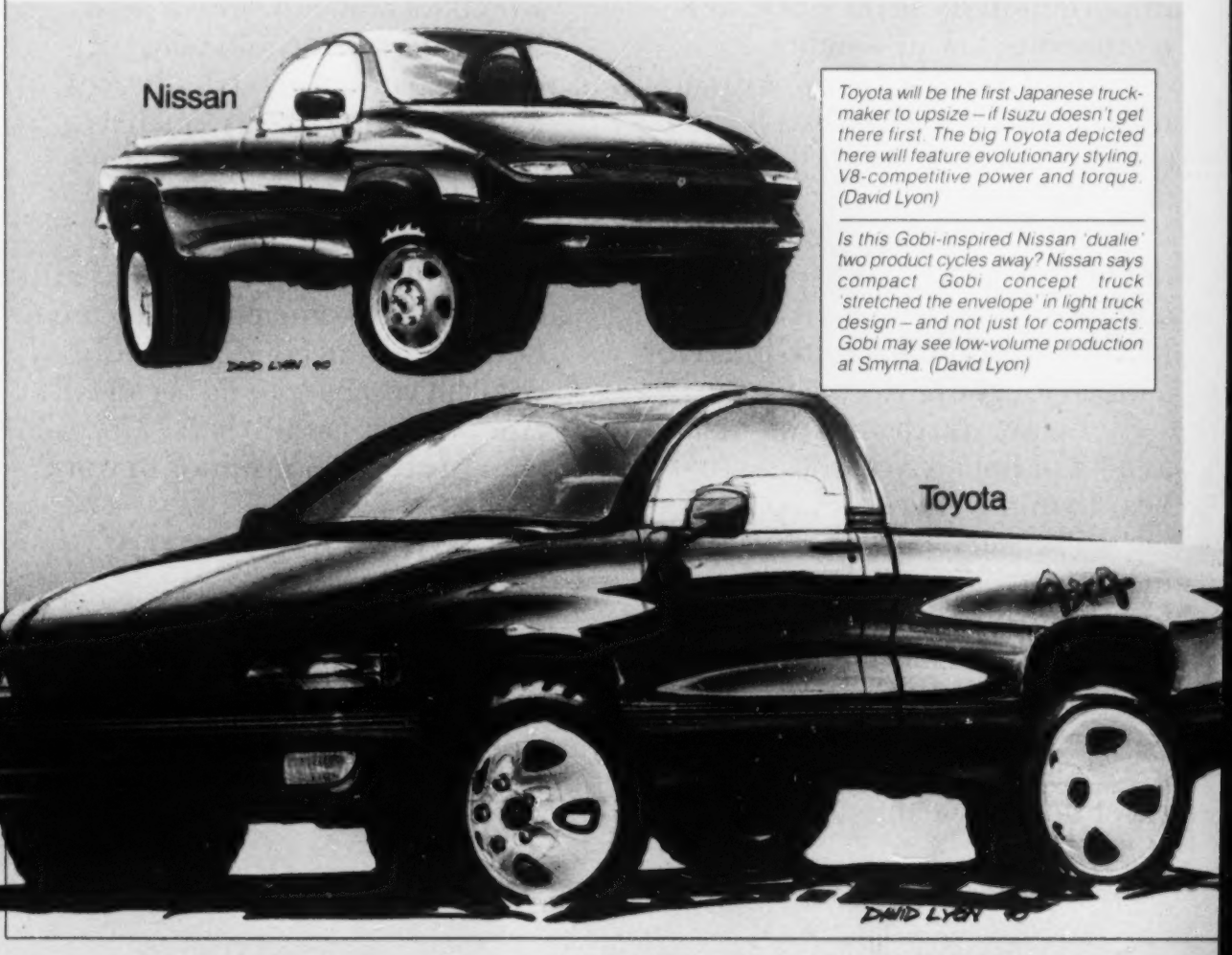
The full-size pickup truck, that most American of vehicles, is finally about to be challenged – by the Japanese, of course.

By 1995, at least one Japanese automaker, Toyota, will be fielding a mid- or full-size pickup – or pickups – in the US. Another maker, Isuzu, looks to be readying a full-size model as well (see sidebar). Their success will determine whether Nissan and the other Japanese companies join the fray. It will also influence the response of Ford, GM and Chrysler, who have a vested interest in keeping this highly lucrative market to themselves.

Two respected automotive analysts are certain such a move will occur, confirming what some Japanese product development officials have hinted since the late '80s. And both are sure Toyota will hit the beach first, in the 1992-93 timeframe.

"I'd bet on Toyota," says George Peterson, president of the California firm AutoPacific. "They've had a strong presence in the US pickup market since the '70s, and they dominated the compact pickup market until just recently. They think they understand it."

Thomas O'Grady, chief analyst at Integrated Automotive Resources and publisher of the industry newsletter *Fast Track News*, also sees Toyota as a definite player, debuting with a mid-



Toyota will be the first Japanese truckmaker to upsize – if Isuzu doesn't get there first. The big Toyota depicted here will feature evolutionary styling, V8-competitive power and torque. (David Lyon)

Is this Gobi-inspired Nissan 'dualie' two product cycles away? Nissan says compact Gobi concept truck 'stretched the envelope' in light truck design – and not just for compacts. Gobi may see low-volume production at Smyrna. (David Lyon)

WHAT THE JAPANESE WILL NEED

Requisites for a serious Japanese challenge include:

• 100,000 unit minimum volume, per maker, to sustain investment.

• US assembly capacity. US production of a full-size pickup makes sense for Toyota, either at NUMMI (which gets the compact truck late in '91) or at a 'mini-facility' at Georgetown, KY that could handle the volume.

• Manufacturing and materials advantages that can take out cost. A full-size pickup costs about the same to assemble as a compact, says consultant Jim Harbour of Harbour and Assoc. It's mainly the materials costs that make the bigger truck more expensive. Watch Toyota employ novel manufacturing methods, like its Flexible Press System (May '90 *AI*, p.71), on the big truck, says George Peterson.

• More flex in the assembly lines at Subaru-Isuzu Automotive. If Isuzu wants to build big pickups in the US, this plant--which now has 72,000 unit truck capacity--may have to be reworked. It's a logical choice for such a project--compact pickup production there is expected to reach 60,000 units a year by late '91, and Rodeo production has just commenced.

• V8-class engine torque. It doesn't have to be a V8--just pull like one. Four-valve heads are not needed here (and would add cost anyway). But looming CAFE regs will dictate high combustion efficiency. Image is important in what's under the hood--if Toyota's two-stroke six can make the torque of a small-block V8 with better fuel economy, it might woo the faithful.--*LB*

size pickup, then following with a full-size truck by 1995-96.

"We've expected the Japanese to get into that [full-size] market for quite awhile," O'Grady notes. "Everything they've done so far in getting there is very logical. The full-size market is one they can't ignore--it's at least 900,000 to a million units."

The analysts say that any import entry into this market will have to maintain at least a 100,000 unit sales presence to survive. Initially, they'll cause the current market to expand slightly; then they'll start eroding the domestics' market share.

Long dominated by Chevrolet and Ford, the 'big' pickup market has been a white-hot war zone since the '80s, when America 'found' the light truck as personal transport. By decade's end, Ford's F-series had been the nation's best-selling vehicle for eight straight years, and the top-selling full-size pickup for 13 years in a row.

Since then, the Big Three's truck plants have generally worked flat-out to pace demand, which at its 1988 peak totalled over 1.4 million units (see chart). And they've continued to sell amazingly well with heavy incentives and rebates.

Ford, which has yet to give up one unit to GM, is currently capacity-constrained due to AOD (automatic overdrive) transmission availability. But Dearborn by no means has the full-size market to itself. GM has turned up the heat since its C/K series

The Toyota and Nissan renderings are the work of David Lyon, a 1990 graduate of the Center for Creative Studies in Detroit. While completing his degree in Transportation Design at CCS, Lyon worked part-time at the Troy-Pioneer Group Design Center in Madison Heights, MI, participating in the Oldsmobile Expression concept car project.

FULL- and MID-SIZE PICKUP SALES 1986-90

	1986	1987	1988	1989	1990 (proj.)[1]
TOTALS	1,236,315	1,280,900	1,416,544	1,377,620	1,390,000
Full-size	1,207,270	1,181,855	1,323,148	1,288,326	1,311,000
Mid-size[2]	29,045	99,045	93,396	89,294	90,000
F-series	544,850	550,125	584,169	566,387	580,000
GM C/K	555,850	534,060	656,966	631,637	640,000
Dodge D/W	106,451	97,670	82,013	90,302	91,000
Dakota	29,045	99,045	93,396	89,294	90,000

[1]Automotive Industries projection [2]Mid-size: Dodge Dakota

AMERICAN COMPACT PICKUP SALES 1986-90

	1986	1987	1988	1989
TOTALS	552,376	617,387	637,893	590,491
Ford Ranger	269,490	305,295	298,579	284,125
GM S-10/S-15	249,500	273,998	301,343	281,292
Jeep Comanche	33,386	38,094	37,971	25,074

JAPANESE COMPACT PICKUP SALES IN THE US: 1986-90

	1986	1987	1988	1989
TOTALS	851,499	698,118	578,686	519,342
Toyota	320,702	252,935	230,373	208,604
Nissan	214,830	161,614	127,699	132,624
Mazada	157,127	123,699	93,287	78,492
Mitsubishi[1]	107,013	115,573	86,547	52,646
Isuzu	51,827	44,297	40,780	46,976

[1]Includes Dodge D-50

FULL-SIZE PICKUPS

Chevrolet and GMC trucks were introduced in 1988, parrying new Ford options, special packages and marketing thrusts with ones of its own.

At Dodge, sales of their old D/W series pickups are obviously not in the same league, having dropped below 100,000 units in 1987. They're still remarkably steady, and the profits per unit are fat – the tooling was paid for years ago. A replacement, coded T-300, is not due until late 1993.

But Dodge's lack of real success with its mid-size Dakota is what has discouraged other truckmakers from competing in the middle. It's that niche, created by Dakota in 1986, that interests Toyota, says Gil Bamford, Toyota's corporate planning operations manager.

When asked directly about his company's pickup truck plans beyond the compact segment, Bamford is expectedly cagey. He states that mid-size is "the area that is being most carefully evaluated," adding that opportunity is there "to provide more truck" – one with the true three-across seating and column gearshift required in a 'work truck.'

But will Toyota venture into completely uncharted (for them), full-size territory? "We're aware of that market," says Bamford, who spent 18 years with Ford before joining Toyota in 1982. "It's stable and represents a substantially different buyer and product, and therefore a big commitment, in development cost and time. If you're going to do it, you'd better do it with what the customer's looking for."

That's the Japanese auto industry's strongest suit, one they'll need in order to crack the US market's most indigenously American segment. Toyota and the others will have to hit the domestics hard with their proven standbys – product performance and reliability, superb assembly quality and customer satisfaction – and they'll have to enter the market with at least price parity.

"Right now, people are very price-sensitive and are looking for value," maintains Greg Penske, general manager of Longo Toyota in El Monte, CA, the biggest Toyota store in the US. "If Toyota can come in with a 'dualie' (dual rear wheel) or extended cab version that's priced properly, I can sell everything they send us." California leads the US in light truck sales, ahead of Texas.

Penske also believes that years of competing against only themselves has left Ford's F-series and the Chevy/GMC pickups vulnerable in the fit/finish quality area. Analysts O'Grady and Peterson concur. "The Americans realize that they really have to work on that part of their trucks," notes Peterson.

Also in agreement is Roger Simpson, who helped develop the '87 F-series pickup before he became program manager on Ford's new Explorer/Mazda Navajo (UN46) sport utility. Although Simpson says the Japanese are still not as deft as the Americans in marketing light trucks, their standards are more exacting in some crucial quality areas.

"What we haven't yet learned to do," he explains, "is do as many things as concientiously and in a quality fashion, on every step of the vehicle development process." He says Ford Truck is incorporating some Mazda techniques into their product development system. And he reckons that Mazda may be applying Ford ideas, learned from working jointly on UN46, to a full-size pickup project of their own.

To what degree the Japanese pursue this market is still unknown. One thing that is certain is that the product(s) will be excellent in every measurable regard. Yet questions remain: How will a Japanese effort, no matter what the perceived quality or after-sales service, play in Peoria? And what will it take for Toyota and the others to sway bread-and-butter customers like construction companies and tradesmen?

"The Midwest is the only place where there would be resistance," states AutoPacific's Peterson. "It's still the 'bastion of conservatism' in the US. But even if the Japanese gain a foothold in large pickups, it'll take them years to develop a niche in this market."

Can the Lexus/Infiniti passenger car analogy be applied here? Superdealer Penske says yes. Toyota's Bamford isn't so sure. He indicates that Lexus' multi-billion-dollar triumph of offering a lower-cost Mercedes-Benz may have been an easier endeavor for his company than taking on the two American pickup truck icons.

"It's an area that GM and Ford have," admits Bamford, "and they can probably keep having it – as long as they continue to produce good trucks." AT

SNAKESKIN BOOTS AND ISUZUS

"They're telling us we're about two years away from having a full-size pickup," says Reed Bond, general sales manager at Sam White Isuzu in Houston, Texas.

Bond, a 16-year veteran of new car sales, is understandably excited about Isuzu's news. There are more light trucks sold in Texas than in any other state *sans* California. His dealership is the largest Isuzu store by volume in the US, and the second largest in truck sales.

Bond and another Isuzu dealer report that according to Isuzu, the company already has a 4.1 L aluminum, ohc V8 ready for its Suburban-sized sport utility [bigger than the Rodeo, which replaces the Trooper] due out in late 1991. He's heard fuel economy numbers of around 25 mpg in the 4x4 chassis. And Isuzu is telling dealers it'll handle trailer-towing packages up to 10,000 lb. An all-Isuzu 3.1 L V6 is also due next year.

Of the big pickup, Bond believes Texans "will jump all over it," Japanese or not.

"I think there's a 75,000-100,000 unit market for full-size imported pickups in the US, and it's mostly in the Sunbelt," he notes. "And it'll do well on the West Coast, because people there are more quality-minded. They perceive an import is a better truck, whether it is or not."

Should the company grapevine be correct, Bond is confident Texas truck buyers of all stripes will accept a big Isuzu.

"In Texas, it's a price- and value-minded market," he says. "Isuzu's fleet business is the largest of all the import truckmakers. About 40-45% of my business is either total fleet or someone using the truck for work. These people want value-for-dollar and quality, above all." –*LB*

PRESSURE SENSITIVE

Japan avoids the trade blacklist with some armtwisting by MITI. But will American suppliers benefit?

by JOSEPH M. CALLAHAN

An apparent turnaround in purchasing by the 11 Japanese automakers – one that could greatly expand business for American suppliers – may have played a major role in Japan not being listed among the countries targeted for stiff trade retaliation by US trade representative Carla Hills.

This surprising reversal, dubbed the 'April Miracle' by one veteran of the auto trade wars, seemingly has persuaded the Bush Administration not to name Japan as a Super 301 country. Such a listing would have allowed the US to impose retaliatory tariffs as high as 100% of the imported products' cost.

The Super 301 provision in the 1988 Fair Trade and Auto Parts Act was inserted primarily to help the US reduce its trade gap with Japan, which last year amounted to $49 billion, including over $10 billion worth of automotive parts.

Hills recently told a Senate committee that Japan would not be listed and that the Bush Administration is encouraged by the Japanese progress in opening markets and resolving trade disputes.

Supplier Reaction: Disbelief

These developments in auto parts purchasing occurred last April at a three-day joint meeting of the Motor & Equipment Manufacturers Assn. (MEMA) and the Japanese Automobile Manufacturers Assn. (JAMA) in Las Vegas. The meeting involved 156 Japanese automotive executives, including many from Japan, and about 200 marketing and engineering representatives of 59 US suppliers or their divisions.

Reaction of the American participants ranged from euphoric to almost disbelief. Several suppliers discussed the meeting with *AI*, but some insisted on speaking off-the-record, fearing they might jeopardize future orders.

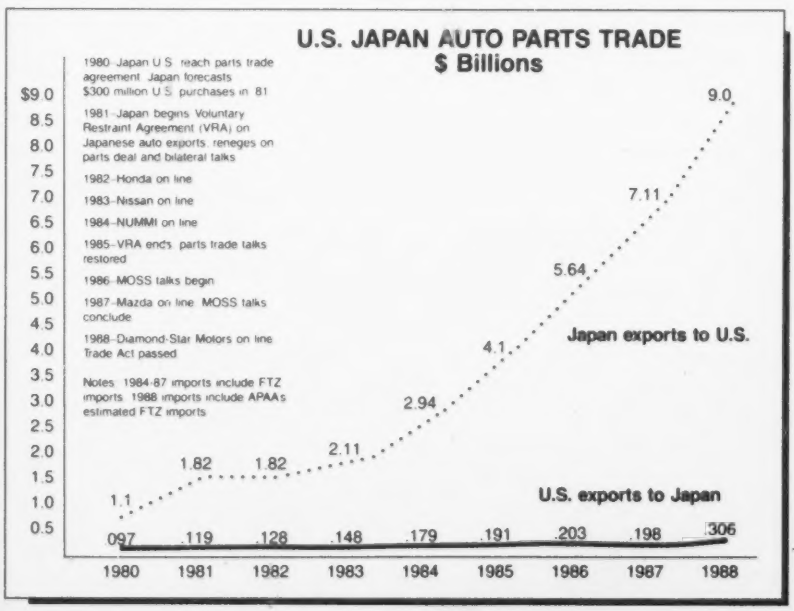
Even before Hills announced that Japan would not be on the Super 301 list, several suppliers stated that this concerted purchasing approach by all 11 Japanese vehiclemakers was ordered by MITI (Ministry of International Trade and Industry) to prevent Japan being named as a grossly unfair trader.

Strong arguments for placing Japan on that list were made last February at a Commerce Department hearing by the Automotive Parts & Accessories Assn. (APAA), the United Auto Workers, GM's Automotive Components Group, New Venture Gear, the Manufacturers Alliance Through Productivity and Innovation and many other organizations.

Julian C. Morris, APAA president, reported that the Japanese auto parts trade surplus, including parts brought in through Free Trade Zones, had exploded 10-fold, soaring from $1.1 billion in 1980 to $10 billion in 1989 (see chart). During this same period, US auto parts shipments to Japan rose from $7.9 million in 1980 to around $300 million in 1989.

In addition to the $10 billion surplus in auto parts from Japan, US automotive suppliers are also facing stiff competition from some 300 Japanese supplier transplants recently established in the US. Most of these are owned or

Continued on p. 47



PRESSURE SENSITIVE

partly owned by the Japanese OEMs.

This quiet invasion has driven hundreds of US auto suppliers out of business while producing serious concern among the other OEM and aftermarket suppliers. Morris also estimates that the decline in domestic car sales has also been a big factor, eliminating as many as 175,000 supplier jobs in recent years. The Commerce Department says that 50% of US suppliers sell to both the OEMs and the aftermarket and the other 50% sell only to the aftermarket.

Commenting on the Las Vegas meeting, Dennis Gormley, chairman of MEMA and president of Federal-Mogul Corp., notes that many new business opportunities have been identified. He says that agreements have been reached and are being implemented.

"Today's achievements are the result of persistent efforts on the part of all JAMA member companies to cooperate and seek business with US parts suppliers," states Hiroshi Okuda, co-chairman of the MEMA-Jama Liaison Committee and senior managing director of Toyota Motor Corp.

Almost without exception, the automotive suppliers *AI* interviewed say the only thing that has been persistent about the JAMA members has been their rebuffs to US parts suppliers.

A spokesman for the US Commerce Department says significant progress was made by US suppliers at the Las Vegas meeting. He attributes much of the previous failure of US suppliers to sell to the Japanese to the American inability to meet the Japanese standards. He adds that some unidentified US companies had told the Commerce Department that the Japanese requirements were beyond them.

More Pressure Needed

Lee Kadrich, APAA's director of government affairs, says the pressure of Super 301 has helped the supplier group get to this stage. But he explains that it's still early and that sustained pressure is needed to make progress.

Super 301 expired last April 30th. It can only be revived with new legislation.

Possibly the most enthusiastic participant in the Las Vegas meetings was John P. Reilly, president of Tenneco Automotive and chairman of the Automotive Parts Advisory Committee (the Quayle Committee), which advises the Commerce Department on parts-supplier matters.

Reilly, who has been seeking Japanese business for six years, is convinced that the Japanese automakers are sincere in wanting to boost their business with US suppliers. "Those were tremendously successful meetings," he says. "There's a great urgency on the part of the Japanese vehicle companies to place business with domestic suppliers."

A market change has occurred, maintains Reilly. But it is one that will take time to bring fruit. "The theme of the meeting wasn't to hand out purchase orders," he says. "It was to dis-

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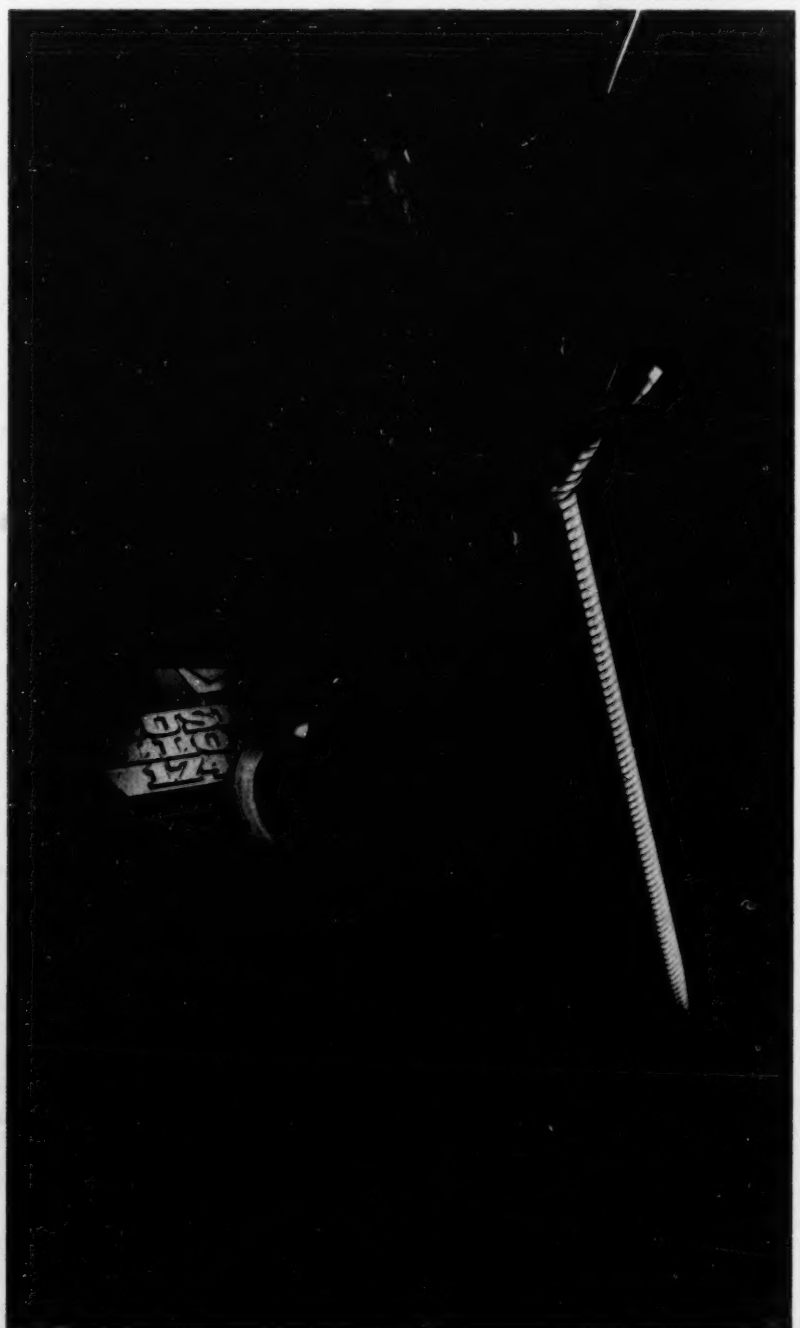
cuss business opportunities."

Joseph Malus, Rockwell International's VP for business development on light vehicle components, was encouraged by the meetings with the Japanese at Las Vegas. But he cautiously adds that "only time will tell how much good this will do in terms of American companies shipping auto parts to Japan or doing business with the transplants here."

In the past, American suppliers have said there were special ways of dealing with the Japanese if you wanted their business. But now that MITI has applied pressure, Manus notes how quickly and easily his company is able to communicate with them.

Another surprising thing to Manus was that the Japanese were unaware of Rockwell's product line. This lack of familiarity is particularly surprising, since Rockwell has an office in Japan and the company does a relatively small volume of business with the Japanese manufacturers in the US and Japan.



Robert Gualdoni, director of business planning development for Allied Signal, described the series of meetings as "very worthwhile. This meeting gave us an opportunity to meet some of their senior people who we don't encounter during our normal marketing contacts," Gualdoni notes. "I think we'll get some business out of them. I can hardly believe it, but these meetings have got to do something for us in terms of business."

Like many companies, Allied Signal and its subsidiaries have had some business with the Japanese over the years. But the company has been struggling for about 10 years to expand this business to a significant level. This volume took a meaningful upturn in 1985 when Allied acquired Garrett, the turbocharger producers who have a facility in Japan.

Incidentally, it has been estimated that some 80% of the US parts suppliers have a small or token amount of parts sales to the Japanese OEMs. Although this volume has been generally insignificant in terms of the bottom line, it gives these companies hope that larger sales may be on the horizon.

One of those willing to speak up is David Zimmer, president of New Process Gear, the new Chrysler-General Motors joint venture. He's also a member of the Quayle Committee.

Cartel A Barrier

As an employee of Chrysler Corp. and Ford Motor Co. before that, David Zimmer has been knocking on the doors of the Japanese OEMs for about 15 years, with only minimal success.

The major question now for the Japanese OEMs and the American parts suppliers is this: In view of Keiretsu and the big investments the Japanese have made in their US transplants, who's going to lose the business that apparently has been promised to American automotive suppliers? AT

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